



Almarai

KSA Consumer Sector | 2Q 2015 Preliminary Results | July 6, 2015

2Q15 review: Earnings beat SFC/consensus; Poultry continues to improve; Maintain Buy

2Q15 net profit beats SFC/consensus estimate from stronger margins: Almarai reported 2Q15 net profit of SAR530m which included SAR443mn of gains from insurance settlement but also included SAR443mn of losses from impairments (SAR205m of G/W impairment primarily in Teeba, SAR31m of G/W impairment primarily in United Farmers, SAR194m of impairment in available for sale investments primarily Zain and other SAR13m of incidental expenses) meaning clean net profit came in at SAR530m (+22% yoy, +73% qoq) that has beaten SFC/consensus by c.10%/5%. While revenues of SAR3,650m (+11% yoy, +20% qoq) and gross profit of SAR1,375m (+21% yoy, +24% qoq) came broadly in line with our estimate, EBITDA/EBIT was c.9%/13% higher primarily from stronger EBITDA margin (c.24.8% vs. 22.9%) which we see as a positive. At the segment level, while the key dairy & juice segment revenues grew at a healthy c.13% yoy and poultry revenues grew c.25% yoy, bakery revenues decreased c.1% yoy due to lost production from fire in 4Q14.

Poultry segment continues to improve: A key takeaway from 2Q15 result is the continued performance improvement in the poultry business. While poultry revenues were up a solid c.25% yoy, net loss before minority was SAR54mn and was down c.48% yoy. In fact, poultry loss has consistently decreased over the previous 6 quarters (1Q15, SAR-62m, 4Q14 SAR-72m, 3Q14 -89mn, 2Q14 -103mn and 1Q14 -133mn) which we view positively.

Core dairy & juice growing at a healthy rate while poultry cash break even expected in 2015E: We see Almarai as a vertically integrated dairy & food producer with a solid brand image and dominant market position. While the core dairy & juice business (c.80%/89% of 2015E revenues/EBITDA) is expected to maintain healthy double-digit growth (after 2011-14E revenue/earnings CAGR c.15%/20%), poultry business (c.8% of revenues but shaves off c.10% of profits) performance should progressively improve and reach cash break-even in 2015E as management resolves capacity utilization issues. During 2014-16E, while we expect consolidated revenue/earnings CAGR of c.13%/15%, we expect dairy & juice to contribute c.80% to the growth.

Trades at 2015E headline P/E of 28.4x and 25.6x (ex-poultry); Maintain Buy: After a c.20% increase in stock price (Tadawul Food & Agri c.-2%, Tadawul c.10%) since 2015 beginning, Almarai trades at 2015E headline P/E of 28.4x. However, Almarai's core business profits are undermined by poultry losses (shaves off c.10% of net profit), meaning even in the worst case scenario of valuing poultry segment at zero, Almarai's core business (ex-poultry) trades at c.25.6x (KSA consumer Avg. 21.6x, EM Food & Agri peers 22.6x, DM peers 22.1x), which we find undemanding, given Almarai's dominant market position and execution track record. We maintain our Buy rating with an unchanged SAR102/share target price.

| SAR mn | 2Q15A | 2Q15E | %diff | Cons* | %dev | 1Q15 | %qoq | 2Q14 | %yoy |
|---------------|-------|-------|-------|-------|------|-------|------|-------|------|
| Revenues | 3,650 | 3,627 | 1% | 3,660 | 0% | 3,037 | 20% | 3,287 | 11% |
| Gross Profit | 1,375 | 1,356 | 1% | Na | Na | 1,110 | 24% | 1,138 | 21% |
| EBITDA (est) | 906 | 831 | 9% | Na | Na | 632 | 43% | 774 | 17% |
| EBITDA margin | 24.8% | 22.9% | | Na | Na | 20.8% | | 23.5% | |
| EBIT | 639 | 566 | 13% | Na | Na | 378 | 69% | 507 | 26% |
| Net Profit | 530 | 481 | 10% | 506 | 5% | 306 | 73% | 433 | 22% |

Source: Company, Saudi Fransi Capital analysis, * Bloomberg consensus

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Rating Summary

| | |
|--------------------|-------|
| Recommendation | Buy |
| Target price (SAR) | 102.0 |
| Upside/ (downside) | 10% |

Stock Details

| | | |
|-----------------------------|---------|------------|
| Closing price* | SAR | 92.0 |
| Market capitalization | SAR mn | 55,200 |
| Shares outstanding | Mn | 600 |
| 52-Week High | SAR | 96.0 |
| 52-Week Low | SAR | 70.3 |
| Price chg. (3 months) | % | 7.6% |
| EPS 2015E | SAR | 3.22 |
| Ticker (Reuters/ Bloomberg) | 2280.SE | ALMARAI AB |

*Price as of July 5, 2015

Key Shareholding (%)

| | |
|--|------|
| Savola Group Co. | 36.5 |
| HH Prince Sultan Bin Mohammed Bin Saud Al Kabeer | 28.6 |
| Omran Mohammed Omran and Partners Co | 5.7 |
| Public | 26.9 |

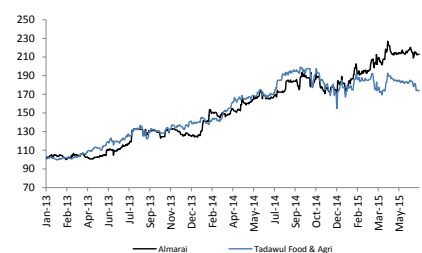
Source: Tadawul

Key Ratios

| | 2015E | 2016E |
|--------------------|-------|-------|
| P/E (x) | 28.4 | 24.7 |
| EV/EBITDA (x) | 18.4 | 16.0 |
| Dividend yield (%) | 1.3 | 1.6 |

Source: Company, Saudi Fransi Capital analysis

Stock price movement vs. TASI



Source: Tadawul

Sector Coverage

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Recommendation Framework

BUY: The analyst recommends a BUY when our fair value estimate is at least 10% higher than the current share price.

HOLD: The analyst recommends a HOLD when our fair value estimate ranges within $\pm 10\%$ of the current share price.

SELL: The analyst recommends a SELL when our fair value estimate is lower by more than 10% from the current share price.

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